



Policy Initiatives Towards the Development of Small Scale Industries in India

KEYWORDS

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ABSTRACT *Small-scale enterprises have been given an important place in the framework of Indian planning for both ideological and economic reasons. Development of small-scale enterprises has been imbued with a multiplicity of objectives such as generation of immediate employment opportunities with relatively low investment, promotion of more equitable distribution of national income and effective mobilization of required capital and human skills. In order to achieve these objectives the Government of India has started various programmes for the development of small-sector in India. It is worth mentioning that over the last six decades, India has built up perhaps one of the world's most elaborate programmes for small enterprise development for providing assistance to the entrepreneurs for setting up small-scale enterprises. The government's objectives and intentions towards industry including small-scale industry were announced through her Industrial Policy Resolutions (IPR 1948, 1956, 1977, 1980, 1990 and 1991) and Five Year plan. This paper aims to focus on studying policy initiatives towards the development of small scale industries in India. This paper also includes the operations and role of the Indian government as a participant, regulator and facilitator in the growth of small scale industries.*

Introduction

Since India got its independence, we are working our economy as per the Five Year Plans. These mega plans have served us as building blocks of our national economy. A brief overview of these plans would give us a fairly clear picture of our developmental program. These plans would also highlight for us the targets set through these sixty five years of India's independence. In this analysis I have reviewed all the Five year plans, Industrial policy resolutions, LPG policy's for the development of small scale industry.

Review of Literature

Before Independence, the present small scale industry was meant to denote the village and the urban cottage industry. This group included a variety of industries ranging from manufacturing of Iron safes, locks, carpets, marble jigs, baskets and hand-loom cloth. In fact, at that time the term "cottage and Small scale industries" was used in juxtaposition to large scale industries, which were established under the British patronage. Small scale industries were indigenous with a historical background of ages. They received encouragement and support during the freedom movement. The nationalists considered it to be their patriotic duty to develop them. The cottage and small scale industries found a prominent place in the economic programme envisaged by the National Congress. Grabam Bannock. (1969) stated that Indian economy is an under developed economy. Its vast resources are either unutilized or underutilized. A major section of manpower is lying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The output is insufficient and the basic needs of the people remain unfulfilled. Nisae Ahmad. (1970) stated that the planners and the economists in India took recourse to small scale industry because most of these industries existed in the traditional form, which symbolize our heritage and past glory. These still serve as the back bone of our economy, which is mostly rural. It is with this view that an assessment of growth, development and working of small scale industries in the specific region is attempted in this research study. Prof. K.T. Sash was the first Indian economist, who realizing the importance of Small scale industries in India, tried to give a workable definition of these industries. He defined "A small scale or cottage industry as an enterprise or series of operations carried on by a workman skilled in the craft on his responsibility, the finished product of which, he markets himself" In contrast Jawaharlal Nehru seemed to be clearer in his mind when he maintained separate entities of

cottage and small scale industries. He was of the view that a small industry was the middle sector and it would overlap both the cottage and the large industries. The basic policy support of SSI sector had its roots in the Industrial Policy Resolution 1977, laid emphasis on reservation of items. The reservation economically viable and technologically feasible products to be exclusively manufactured by small scale industry began with a list of 47 items which was gradually extended to too many products.

At Present 812 items are in the reserved list. Mathew P.M. (1970) stated that The other policy support which could be listed are excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from small scale industry sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support, new management techniques, training and entrepreneurship development programs. Nikhil Bhusan Dey, deals with the role of Government and various institutions in developing and financing small scale industries in Cachber district in particular and the state of Assam in general. Gholam Ali, (1999) in his study entitled, "Help makes small scale industries viable" revealed that big and small industries have their share in the development of a nation and the prosperity of its masses. A balance must be struck in the development of these industries. The thrust on the development of SSI through successive Five year plans and Government Policies had helped this sector. K.M Rostagi, (1997) in his study entitled, "Employment Generation through Small Scale Village and Cottage Industries – A case study in Madhya Pradesh" has also reported that unique case of growing unemployment and poverty amidst plenty. He is in favour of only small and village industries which make optimum use of indigenous resources and techniques. According to him, there are hundreds of items which can be produced in rural and in small scale industrial units more economically than in a large sector. Minocha, A.C. (1997) in his study entitled, "Industrial development in Madhya Pradesh Regional Structure and Strategy for employment Oriented Industrialization" has suggested that the strategy of employment oriented industrialization should aim at the development of SSI in rural areas.

Father of our Nation, Mahatma Gandhiji had strongly advocated the development of Indian villages by making them financially viable through small and village industrial units. Pt. Jawaharlal Nehru, First Prime Minister of India said, "Sky is

the limit of the small scale industry". National planning committee was constituted at the end of 1938. The committee could not carry its work successfully because of the outcome of Second World War. After independence, India has the credit of operating the largest program for the development of small scale industries. After independence five year plan (FYP) were introduced in India. Ali, M. Z. (2004) stated that our late Prime Minister Mrs. Indira Gandhi once remarked, "Small scale industries offer many opportunities; besides adding to production, they broaden the industrial base. They enable the process of modernization as well as entrepreneurship to spread to more regions and layers of society". There was healthy debate on these issues for many years even before independence but Nehru had been working on forging consensus around the concept of centralized planning. It is interesting that even before Nehru got the Planning Commission established in March 1950, the pre-Independence Industrial Policy Statement of 1945 had noted the objective of exercising Central Government control over certain industries, including key infrastructure sectors such as power. The debate notwithstanding, the economic policy, articulated immediately after Independence, (in the Industrial Policy Statement of 1948, for example) hardly represented a radically new policy direction – it was more of an evolutionary step in a policy of Central Government participation in economic activity. By the time the Second Plan was being formulated in 1955-56, Nehru had cemented his position as the undisputed head of the Congress Party and his vision of planned economic development and Fabian Socialism had taken concrete hold on the whole policy making apparatus through the acceptance by Parliament in 1954 of the "socialist pattern of society" as the key objective of social and economic policy, and the passage also in Parliament of the Industrial Policy Resolution and the Industries Act in 1956.

Five Year Plans

The development of small scale industries were initiated immediately after independence. That the government has attached great importance to the development of small scale sector in the successive five year plans can be had a glancing at the allotment and expenditure for small scale sector as follows:

During 1st five year plan, All India Handloom Board, All India Handicrafts Board, All India Kadi and Village Industries Board, The Small Scale Industries Board, Coir Board, Central Silk Board were started to promote the small scale industries in India. During 1952 a sum of Rs. 43 Crore were allotted to small and village Industrial development. During 1954 Government has formed D.G. Karve committee to review the village and small industries. The Gross Domestic Product (GDP) target was fixed as 2.1% whereas 3.6% GDP has been achieved. During 2nd FYP a sum of Rs. 187 crore were allotted for the development of small scale industries whereas 175 crores were spent during the period. Government formed SSI services in all the states. 42 development centers and 60 industrial units were formed in India. The targeted GDP was fixed as 4.5% whereas 4.21% has been achieved. During the period of 3rd five year plan sums of Rs.26.4 crore were allotted whereas 24.07 crores were spent during the period. Due to indo-Pakistan war (1965-66) the aim of this FYP was miserably failed. The target of the GDP was 5.6% whereas the achievement was 2.72% only. During the period of annual plans (1966-69) a sum of Rs. 132.55 crore were spent to SSIs. In the 4th five year plan (1969-1974) a sum of Rs. 293.13 crores were spent during the period Rs. 251.00 crores for SSI Development. The targeted GDP was 4.4% whereas the achievement was 4.83% only. After 1971 indo-Pakistan war, Bangladesh refugees came to India. During the 5th five year plan (1974-79) sum of Rs. 610 crore were allotted for small scale industrial development and then reduced it to 535 crores, and finally sum of Rs. 388 crores were spent. The targeted GDP was 4.4% whereas the achievement was 4.83% only. The above plan was terminated in 1975 because the Janatha Government came in to power. Rolling plans (1978-80) were introduced by Janatha government during 1978-79. When congress came in power on 1980 then the above plan was withheld.

During the 6th Five Year Plan (1980-85) sum of Rs. 1780.35 crores were allotted for SSI. The GDP target was 5.2 % were as achievement was 5.54 %. The aim of the FYP regarding SSI are; to improve production, to give technical knowledge to workers, to use all resources, to give training, to encourage export activities, to increase the national income, modernization of technology, decrease the poverty and unemployment. Due to economic liberalization price control was eliminated. During the period the cost of living also increased. In the 7th Five Year Plan (1985-90) sums of Rs. 2752.00 crore were allotted whereas 3249.00 crores were spent. The targeted GDP was 5.0 % were as achievement was 6.02 %. During the period between 1989 and 1991, sums of 6766 crore were spent during the period. During the period of 8th Five Year Plan sums of Rs.17151 crore were allotted during the period. Importances were given for modernization of industries. It reduced foreign debit. India became a member of world trade organization on 1.1.1995. The main objectives are poverty reduction, employment generation, NGO's decentralization, people's participation and energy. Average annual growth rate of 6.7% against the target 5.6% was achieved. The plan was terminated on 31.03.1997. The major objectives of the 9th five year plan are rural development, to generate employment opportunities, poverty reduction. The GDP target 6.5% and achievement was 5.35%. During 10th Five year plan (2002-2007) budgetary support projected Rs. 384.00 crores were as realization is 1872.00 crores in SSI sector. Aim to give high quality employment during the period our former Indian president Dr. A.P.J. Abdul Kalam (2005) stated that, nearly 2 crore workers are presently employed in the various SSIs they need to be given an appropriate support so they can also avail of the facility enjoyed by the workers from the organized sector. He also stated that there was a great potential for increasing the export revenue from SSI sector and exhorted that this could be double during the next five years and appealed to all workers in the direction. The GDP target 8.0% and achievement was 7.2% in the 10th five year plan. The objective of the 11th Five Year Plan (2007-2012) are to create 70 millions new work opportunities, to enhance GDP from 8% to 10%, reduce unemployment to below 5%, raise real wages rate of unskilled workers by 20%, from 52.2 % to 20%, to give electric connection to all villages, to enhance road connection, to give telephone and broad band connection to all villages and to provide house to poor.

Table – 2. Gross Domestic Product (GDP) Growth during five year plan

Particulars	1 st FYP (1951 - 56)	2 nd FYP (1956 - 61)	3 rd FYP (1961 - 66)	4 th FYP (1969 - 74)	5 th FYP (1974 - 79)	6 th FYP (1980 - 85)	7 th FYP (1985 - 90)	8 th FYP (1992 - 97)	9 th FYP (1997-02)	10 th FYP (2002 - 07)	11 th FYP (2007-12)
Target	2.9%	4.5%	5.6%	5.7%	4.4%	5.2%	5.0%	5.6%	6.5%	8.0%	9.0%
Achievements	3.6%	4.21%	2.72%	2.05%	4.83%	5.54%	6.02%	6.68%	5.35%	7.2%	.

(Source: (a) The Government of India, Planning Commission, Tenth five year plan (2002-07), Vol.1, P.24. Table 2.1. (b) Government of India, Planning commission, an approach of Eleventh five year plan, November, 2006, PP. 1 and 18, (c) Sharry,(2011) M.M., India: Sixty years of planned economic development 1950 to 2010, New Century Publications, New Delhi. PP.61)

Approach to the Twelfth Plan: The meeting of the Planning Commission on 21st April 2012 considered a presentation on "Issues for the approach to the 12th plan". Based on the discussion, the commission will prepare a draft approach document which will be discussed with the states and will be finalized by faster creation of jobs in manufacturing. We

should specify a target for extra jobs to be created in this sector in next 5 years. This will be worked out in greater detail, but at its heart lies our ability to spread industrial Industry manufacturing performance is weak. Growth of manufacturing in the 11th Plan is likely to be only 8%. We need to raise this to 11-12% per year in the 12th Plan to create the jobs for our growing labour force. This has become a particularly urgent need since it is now clear that agriculture will no longer absorb more workers, and may indeed release some of the existing work-force. In our estimation, the manufacturing sector will have to create around 3 to 4 million jobs over and above the pace of job creation in the recent past. We are fortunate to have an abundance of entrepreneurial talent in the country, which needs to be harnessed effectively if we are to achieve the desired growth in manufacturing. The corporate sector has largely been unfettered, and has demonstrated its dynamism. There are, however, limits to which it can grow. A large part of the additional growth will have to come from the MSME sector, which continues to face a plethora of hurdles in realizing its true potential. The Twelfth Plan will need to focus on this for accelerating manufacturing growth; therefore, we need a strategy to achieve greater domestic value addition and technological depth in Indian industry to cater to growing domestic demand and to improve our trade position. Attract investment, including FDI, in critical areas where manufacturing capacity should modernize and developed. Improve the business environment and reduce the cost of doing business. This is largely an agenda item for state governments. Promoting "clusters" is a very effective way of helping manufacturing and promoting MSMEs. State Governments should be incentives to Support clusters.

Industrial Policy Resolutions and Measures

The Industrial Policy Resolutions of 1948 and 1956 reflected the desire of the Indian State to achieve self sufficiency in industrial production. Huge investments by the State in heavy industries were designed to put the Indian industry on a higher long-term growth trajectory with limited small scale sector availability of foreign exchange, the effort of the Government was to encourage domestic production. During the tenure some of 128 items were reserved for exclusive production in this The Small Scale Industries Board (SSIB) constituted a working group in 1959 to examine and formulate a development plan for small scale industries. The basic strategy guided industrialization until the mid-1980s. Till the onset of reform process in 1991, industrial licensing played a crucial role in channeling investments, controlling entry and expansion of capacity in the Indian industrial sector. As such industrialization occurred in a protected environment, which led to various distortions. Tariffs and quantitative controls largely kept foreign competition out of the domestic market, and most Indian manufacturers looked on exports only as a residual possibility. Little attention was paid to ensure product quality, undertaking R&D for technological development and achieving economies of scale. The industrial policy announced in 1991, however, substantially dispensed with industrial licensing and facilitated foreign investment and technology transfers, and threw open the areas hitherto reserved for the public sector. The policy focus in the recent years has been on deregulating the Indian industry, enabling industrial restructuring, allowing the industry freedom and flexibility in responding to market forces and providing a business environment that facilitates and fosters overall industrial growth. The future growth of the Indian industry as widely believed, is crucially dependent upon improving the overall productivity of the manufacturing sector, rationalization of the duty structure, technological upgradation, the search for export markets through promotional efforts and trade agreements and creating an enabling legal environment.

Liberalization-Privatization-Globalization (LPG) Policies in India

India has been a founding member of the WTO, 1995 and a member of GATT, 1948, India tried to follow its own regulatory policies after it was free from the Colonial control of Britain in 1947. Within twenty years, enough constraints and public Pressure was created to ensure that India opens up

its economy to firms from the industrially developed economies. In 1977, with the Janata Party in power at the centre and under Subramanian swamy as the Finance Minister, the first wave of liberalization came in. As a first step of liberalization, many items for exports and imports that used to be under the State Trading Houses of the Government of India were shifted under the category of items under the 'Open General License' in order to allow private traders to be able to trade on these items. The industrial and regulatory policies since 1977 have had some bearings of economic liberalization in India. The Industrial Policy 1985 and the Industrial Policy 1991 under the Congress Government has lead India towards a free market. One of the key constraining Act on the multinational enterprises, FERA 1973 was replaced with FEMA, 1999. Within the next 28 years of its first liberalization step in 1977, India was signed into follow the laissez faire policies of WTO in 2005. The inability to appreciate the efficiency of public ownership or community ownership (Ostrom, 1990) blinds the advisors and the policy makers to sell of valuable assets to private capital, usually at very low prices. The other technique that has been successfully used as in the case of India has been the partial divestment of public enterprises. With a mere 26% of the state enterprise, the Private owners get full control of the management to put to use the capital reserves and assets of the public enterprise. The cases of Reliance Industries acquiring Indian Petrochemical Industries Limited (IPCL) and Tata Sons acquiring Videsh Sancha Nigam Limited (VSNL) highlight how the private firms have exploited the reserves and valuable assets of the public enterprises through the disinvestment mechanisms. By getting the management control of these above public enterprises, Reliance and Tata Sons have also controlled and raised the market prices of polymers and international call services, raising the cost of these products and services to the society. The private firms also gain significantly from the customer networks and other institutional networks of the public enterprises. Through the legislation of the PSE disinvestment bill, a large number of public sector enterprises (PSEs) have been either partially divested or fully divested. Some of the profit making public enterprises has also been sold off strategically to the advantage of private firms and at the cost of the public. Disinvestment of public enterprises has also been carried out at the state level. Across the different states, India has divested a large number of public assets held by public enterprises through the divestment bill. The process of liberalization-privatization-globalization argument has also approved the Collusion of businessmen and the policy makers to decide on what is good for the country. For the first time in 1995, the Indian Government under the BJP formally invited businessmen from the leading business houses to be part of key committees of the Government.

The process of globalization and the rapidly changing regulatory environment creates several asymmetries in a developing country context; a situation that favors a few with access to critical resource base, competence, information and socio-political network to crystallize their resource bases and competences to reap the benefits of freer markets. The individuals and firms with greater asymmetric advantages make use of the institutional deficiencies in the fast changing environment to gain further advantages that reinforces their existing asymmetric advantages. The greater asymmetric advantages of size, product specialization, technology, capital, management, and ownership give the power to control the market, industry and subsequently the society. In retrospect, the dynamics of globalization since the nineties resemble a war like situation where the large firms through a complex web of government and Institutional mechanism have led to the disruption of the normal order in the developing country's economies and let a new order emerge where the firms and the capitalists take control of the society. The socio-economic, cultural and psychological disorder and pains experienced by the majority of the population across the developing countries and industrially advanced countries during the last two decades is probably more than what were experienced in the World Wars. The obliteration of lives and wealth, the amount of fear, anxiety and hopelessness among the mar-

ginal producers and consumers is far more than ever before. Harvard Business School had discussed how the emerging multinational enterprises from the emerging economies have the advantage and are able to exploit the institutional voids existing in these economies. These institutional voids/deficiencies in Khanna and Palepu's explanation are however, seen from the perspective of institutional arrangement in advanced capitalistic economies. Globalization is indeed a slow, progressive, violent and one sided war by the firms on the ordinary marginal producers and consumers of the society and their common resources. The seeds of this current phase of the 'Global War' were indeed sown in the Bretton Woods Conference in 1944, at a time when the World War II was coming to an end.

Performance Analysis: The performance has been traced back as follows:

Performance growth of SSI Sector

Year	Units (in Lakh)	Production (Rs. Crore)		Employment (in Lakh)	SSI Exports	
		At 1993-94 prices	At current prices		(Rs. Crore)	(Rs. US\$) Million
1973-74	4.2	34200	7200	39.7	400	500
1974-75	5.0	36100	9200	40.4	500	678
1975-76	5.5	42500	11000	45.9	500	615
1976-77	5.9	46800	12400	49.8	800	857
1977-78	6.7	52800	14300	54.0	800	987
1978-79	7.3	58200	15800	63.8	1100	1303
1979-80	8.1	66400	21600	67.0	1200	1518
1980-81	8.7	72200	28100	71.0	1600	2078
1981-82	9.6	78300	32600	75.0	2100	2309
1982-83	10.6	84700	35000	79.0	2000	2116
1983-84	11.6	93500	41600	84.2	2200	2093
1984-85	12.4	104600	50500	90.0	2500	2137
1985-86	13.5	118100	61200	96.0	2800	2263
1986-87	14.6	133600	72300	101.4	3600	2851

1987-88	15.8	150500	87300	107.0	4400	3372
1988-89	17.1	169900	106400	113.0	5500	3790
1989-90	18.2	189900	132300	119.6	7600	4579
1990-91	67.9	84728	78802	158.3	9664	5386
1991-92	70.6	87355	80615	166.0	13883	5632
1992-93	73.5	92246	84413	174.8	17784	6140
1993-94	76.5	98796	98796	182.6	25307	8068
1994-95	79.6	108774	122154	191.4	29068	9258
1995-96	82.8	121175	147712	197.9	36407	10903
1996-97	86.2	134892	167805	205.9	39248	11056
1997-98	89.7	146263	187217	213.2	44442	11958
1998-99	93.4	157525	210454	220.6	48979	11642
1999-00	97.2	170379	233760	229.1	54200	12508
2000-01	101.1	184401	261297	240.9	60797	15278
2001-02	105.2	282270	272270	252.3	71244	14938
2002-03	109.5	306771	314850	263.7	86013	17773
2003-04	114.0	336334	364547	275.3	97644	21249
2004-05	118.6	372938	429796	287.6	124417	27690
2005-06	123.4	418884	497842	299.9	150242	33935
2006-07	128.4	473339	587196	312.5	-	-
2007-08	133.7	532979	695126	322.3	-	-

(Source: (a) Reserve bank of India, Hand book of statistics on Indian economy, 2008-09, Table. 35. (b) Sharry, M.M., India: Sixty years of planned economic development 1950 to 2010, New Century Publications, New Delhi. PP.340)

Conclusion

The balanced and sustainable growth of Indian economy calls for certain minimum level of diversification of the economy in the direction of the industrial sector. Hence, SSIs have an important place in the economic life of a developing country like India. During the tenure of First to Eleventh five year plans (1951-2012) the socio economic status of the people, industrial development, GDP growth rate from 2.9 to 9.0 (estimated of the year 2012) were increased. During the tenure the government has formed several boards, committees and the development surveys. The government of India has ensured the same to small scale industries through its IPRs (1948-1991) announced from time to time. The government's keen interest for the development of small scale sector is also reflected in its plan outlays made for this sector.

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